ABSTRACT

A method and system is provided by which an entity manages an exposure to an economic risk associated with a commodity and initially includes the step of modeling the exposure to the risk using financial instruments such as forward contracts and option contracts. Next, a hedge for the exposure is executed. Liquidated cash flows, that are based on the modeled exposure and said hedge, are periodically calculated. If liquidated cash flows are positive, a payout is provided to the entity while a payout is received from the entity if the liquidated cash flows are negative. In an exemplary embodiment, the liquidated cash flows are marked to the market.